

Medicare Provider Funding Inequities

Background

The system used by Medicare to reimburse hospitals and physicians (and also HMO's) uses a thirty year old formula that is based on regional historical costs. At that time health care delivery in the Midwest cost less than in other areas of the country. Today, the opposite is true. Health care costs in the Midwest and Wisconsin in particular are some of the highest in the nation. Yet the reimbursement mechanism does not reflect this change. The Balanced Budget Act of 1997 made the problem worse by limiting the growth in Medicare reimbursements.

In 1998 Medicare payments underfunded Wisconsin hospitals by \$320 million per year. These costs are shifted to private payers. When physician reimbursements are included the shortfall estimates reach \$1 billion annually.

In 2000, former Governor Thompson and the Department of Justice filed a lawsuit against the federal government on behalf of Wisconsin Medicare HMO's to force a change in the way Medicare reimbursements are calculated. DOJ estimates that the HMO's are losing \$24 million per year.

In December of 2000, the U.S. Congress passed an additional \$13 billion for provider reimbursements. It has not yet been determined how much of this funding will come to Wisconsin providers.

Options

1. Petition President Bush and Health and Human Services Secretary Thompson as well as the Wisconsin congressional delegation to change the way Medicare is reimbursed.
2. Form a coalition of midwestern states to do the same.

Pros

- With a former governor as president and HHS secretary Wisconsin would have a sympathetic ear.
- Either option would bring a significant amount of public attention to the issue.

Cons

- Could be considered to be largely symbolic gestures because of the difficulties that states face in changing federal policies.
- If Medicare payments are "made whole" there is no guarantee that insurance premiums would be affected positively.